

Governance

Governance is the overall set of processes we use to run the Pension Fund. It forms a key part of a number of the other areas of focus within this plan but is also crucial in its own right.

Our objectives in this area are:

- To be open and accountable to our stakeholders for our decisions, ensuring they are robust and evidence based;
- To ensure that the Pension Fund is effectively managed and its services are delivered by highly motivated people who have the appropriate knowledge and expertise, and with access to appropriate systems;
- To deliver value for money, excellent customer service and compliance with regulatory requirements and industry standards where appropriate.

Over the next three years we are aiming to undertake the following actions in this area:

Outcomes	Actions	Timeframe	Progress September 2018	Progress Deecember 2019
Implement any new governance requirements to reflect changes in the Council's management structure	<ul style="list-style-type: none"> • Assessment of governance policy documentation of the fund in consultation with the new S151 officer. • Review officer scheme of delegation • Implement any changes in 2018/19. 	2018/19	Governance reviewed April 2018. No material changes identified.	No further changes have been required.
Compliance with all statutory regulations.	<ul style="list-style-type: none"> • MiFID2 – ensure all appropriate documentation is completed by the deadline of Jan 2018. Continue to monitor compliance with MiFID2. 	2018/19	MiFiD 2 implemented on time. It is an on-going process which will continue to be reviewed.	MIFID 2 is business as usual activity.

	<ul style="list-style-type: none"> • General Data Protection Regulations (GDPR) – ensure that the fund and LPP will be fully compliant with the new regulations by the deadline of May 2018 • Work with LPP representatives to implement changes 		<p>The Fund has implemented GDPR regulations. LPP had an independent review of their implementation by a company that specialises in GDPR and data protection. LPP were rated as 'excellent'.</p>	<p>GDPR action plan in place to tackle high risk areas</p> <p>Senior Managers & Certification Regime (SMCR). Wide ranging project in place to deliver this new FCA regime. Implementation date was the 9th December 2019 and LPPI achieved this deadline,</p>
<p>Ensure that LPP are operating effectively and to the agreement</p>	<ul style="list-style-type: none"> • Regular meetings with LPP • Monitoring of performance and KPI's 	<p>Throughout period of Strategic Plan</p>	<p>Regular meetings with LPP are held. Updates and performance measures are reported to committee on a quarterly basis.</p>	<p>PWC undertook and independent review of LPP reporting its findings in March 2019</p> <p>Regular meetings with LPP continue to be held and performance measurement reported to committee. A three year benchmarking review is progress to assess LPP's effectiveness in advance of the break clause in the contract in 2022.</p>

Ensuring LCPF interests are protected as other funds join the LPP Pool as clients	<ul style="list-style-type: none"> • Performance monitoring • Analysis of any proposal which impacts on shareholding arrangements 	Throughout period of Strategic Plan as proposals are submitted	Performance of both the investment and administration services provided by LPP are monitored regularly. Reports submitted to and considered by both the Pension Fund Committee and Investment Panel.	Berkshire Pension Fund now has its assets managed by LPP. The Pension Fund Committee and Investment Panel have continued to monitor performance and ensured that there has been no detriment to LCPF.
Ensure appropriate and effective implementation of Responsible Investment	<ul style="list-style-type: none"> • Working group to review; • Develop an RI Policy; • Evaluate closer working with LPFA; • Review RI Reporting 	June 2018	<p>The Working Group is reporting back to the November Pension Fund Committee with a revised RI Policy and includes a new potential dashboard style reporting for RI.</p> <p>Closer working with LPFA regarding RI is still being explored, and as such, LPFA representatives attended the RI Working Group Meeting in October.</p>	<p>A new Responsible Investment Policy was presented and agreed at the Pension Fund Committee meeting held in November 2018. The new dashboard style reporting are still to be implemented by LPP.</p> <p>Closer working with LPFA regarding RI is being considered, however has yet to be initiated due to LPFA directing resources to their own policy.</p>
Continue to enhance risk management processes	<ul style="list-style-type: none"> • Ongoing assessment of existing and new risks; • Where appropriate linking of risk register to LPP risk register • Develop a fund risk management framework; 	Risk approach to be enhanced on an ongoing basis throughout the period of the Plan	Regular reports submitted to both the PF Committee and the LPB.	A Risk Management Framework has been developed and implemented – after approval by the Pension Fund

			<p>The LCPF continue to work closely with LPP to manage existing risks and identify and new emerging ones.</p> <p>LCPF are current in the process of developing a Risk Management Framework.</p>	<p>Committee in June 2019.</p> <p>Links with the LPP risk register is being maintained through regular quarterly meetings with LPP.</p>
Implement any changes to the Local Pensions Board arising from the Advisory Board review of their effectiveness	<ul style="list-style-type: none"> Assessment of Advisory Board findings and identify any weakness in the working of the Lancashire Local Pension Board 	Throughout period in response to publications and recommendations	No recommendations have been issued from the SAB.	<p>The Scheme Advisory Board published their Good Governance Report on 31 July 2019. The report can be found at the following link:www.lgpsboard.org/images/PDF/GGreport.pdf</p> <p>Hymans Robertson, who were originally commissioned to produce the report, will now assist the Scheme Advisory Board in taking forward the next stage of the project.</p>
Ensure compliance with the Pension Regulator's (TPR) code of practice No. 14	<p>Review the TPR's governance and administration 2017 report and guidance, specifically:-</p> <ul style="list-style-type: none"> Ensure scheme managers and pension board members are aware of their roles and responsibilities in running the pension scheme. 	March 2019	The Fund has a statement on compliance with COP 14 an update will be presented to the LPB annually.	<p>All Committee and Board members have had training on Code of Practice 14.</p> <p>LPP produce quarterly SLA performance</p>

	<ul style="list-style-type: none"> • Undertake an annual data review and introduce an improvement plan (where required) • Ensure compliance with forthcoming TPR guidance on record keeping and breach reporting 		<p>Breaches are now reported to the LPB on a quarterly basis.</p>	<p>reports which provide data quality review information .</p> <p>The Pensions Regulator has announced changes to existing codes of practice. The content of the 15 current codes of practice will be combined to form a single shorter code. Codes most affected by these regulations will be addressed first, and this includes Code of Practice 14 which applies to public sector schemes such as the Local Government Pension Scheme. LCPF will need to demonstrate that they have an effective governance system within 12 months of the date the updated codes are published. A formal consultation is due to be launched early 2020.</p>
--	--	--	---	---

Asset and Liability Management

Asset management is the process of achieving returns on the contributions to the Fund made by members and employers so ensuring that the money required to pay pensions is available when required. Liability management is the process by which the impact of changes in the value of the obligation to pay future pensions on the Fund is mitigated.

Our objectives in this area are:

- To ensure that resources are available to meet the Fund's liabilities through achieving investment performance at least in line with actuarial assumptions.
- To achieve full funding (i.e. no funding deficit) over a period no longer than the current recovery period.
- To achieve, as far as possible, stable employer contribution rates;
- To manage employers' liabilities effectively having due regard to the strength of each employer's covenant by the consideration of employer specific funding objectives.
- To maintain liquidity to meet projected net cash flow outgoings.
- To minimise irrecoverable debt on the termination of employer participation.
- To be a good asset owner.

Over the next three years we are aiming to undertake the following actions in this area:

Outcomes	Actions	Timeframe	Progress September 2018	Progress December 2019
Ensure effective cash-flow management to meet pension fund payments in the future	<ul style="list-style-type: none"> • Revised Investment Strategy implemented from 1 April 2018, which increases liquidity in the portfolio, Continue to monitor cash-flow throughout the plan. 	2018/19 and reviewed throughout Plan	Policy in place to manage some £70m in liquid assets by LCC's Treasury Management Team. Liaison between LPP and LCC to	Liquid assets have been managed by LCC in line with the allocations in the Investment strategy.

			forecast and monitor cash flow is being undertaken.	
All appropriate assets pooled. Agreed methodology for reporting savings.	<ul style="list-style-type: none"> To oversee the completion of the pooling of investments Continue development of a model to capture savings 	Expected completion of pooling early 2018 Savings model established 2018/19	All appropriate assets are pooled.	A real estate pool was launched in October 2019; which is the final investment pooling vehicle
Improve the transparency over the costs of the Fund	<ul style="list-style-type: none"> Implement the CIPFA Code of Practice on Management expenses and the LGPS Advisory Board Code on Transparency 	On-going in line with publication of the CIPFA guidance on the Codes	Work on-going with LPP and managers to implement the CIPFA code. Classification of costs is improving. CIPFA has also issued new guidance re disclosures following pooling which will be reviewed and implemented.	<p>CIPFA published an updated guide to preparing pension fund annual reports in early 2019. This guidance identified disclosures as either 'must disclose', 'should disclose' and 'may disclose'. Working with LPP the Fund has complied with all 'must disclose' requirements and many of the 'should disclose' items. The 2018/19 annual report includes the mandatory asset pool disclosures, including set up and transition costs, savings information and ongoing investment management expenses. The Fund's disclosures are consistent with those reported in LPP's own statement of accounts and other external reporting.</p> <p>LPP are a signatory to the transparency code and are</p>

				actively working with investment managers to improve the integrity and timeliness of quarterly and annual cost reporting. This will support the Fund in meeting the evolving objective of increased cost transparency
Ensure that the Investment Strategy is up to date and appropriate.	<ul style="list-style-type: none"> To periodically review the Investment Strategy and implement any changes 	Ongoing throughout the period	Investment Panel continually reviews strategy. No modifications required as Investment Strategy implemented from 1 April 2018.	The Investment Panel continue to review the strategy. The Investment Strategy will be reviewed and amended as necessary following approval of the Funding Strategy Statement.
Completion of the 2019 Actuarial Valuation and identification of changes, if any, required in the Investment Strategy	<ul style="list-style-type: none"> Provision of data to the Actuary at individual member level. Agreement of key assumptions with the Actuary by the PFC Engagement with employers on an ongoing basis throughout the process, but particularly as results become available. Review of Funding Strategy in light of results 	<p>Provision of data from April 2019.</p> <ul style="list-style-type: none"> Agreement of assumptions by PFC to be in line with Actuary's timetable. Feedback of results from September 2019. Revised Funding Strategy Statement PFC Feb / March 2020. 	Initial discussion with actuary have been undertaken. The Head of Fund and actuary have met with the Chief Finance Officers and a meeting with the Lancashire Leader has been arranged for November.	<p>All data files and cash flow files were sent to the scheme actuary by 31 July 2019.</p> <p>Release of employer results and schedules where released mid-November, following completion of presentations and engagement with employers</p> <p>A draft Funding Strategy Statement has been sent out for consultation to scheme employers. Any</p>

		<ul style="list-style-type: none"> •Implementation of revised Rates and Adjustments Certificate from April 2020 		<p>responses are to be submitted by the end January. The draft Funding Strategy is being submitted to the committee in February.</p> <p>Provision of formal report and actuarial certificate will be completed at the end of March.</p>
--	--	--	--	---

Administration

Administration is the process through which the information required to maintain members' contribution records, collect contributions due and calculate and pay their benefits in an accurate and timely way is undertaken.

Our objectives in this area are:

- To deliver a high quality, cost-effective, user-friendly and informative service to all members, potential members and employers at the point where it is needed;
- To ensure that benefits are paid and contributions collected accurately and on time;
- To demonstrate compliance with all relevant regulatory requirements;
- To ensure that data is handled securely and used only for authorised purposes.

Outcomes	Actions	Timeframe	Progress September 2018	Progress December 2019
To ensure that the level of complaints and errors does not increase	To review the impact of the re-organisation of LPP administration service on LCPF	December 2019	LPP have implemented changes to the administration service. The impact of these has been monitored and reports presented to the Pension Fund Committee	A dedicated complaints officer has been established at LPP. Additionally LPP are conducting a review of systems and processes to reduce both the level of error and process time on cases.
Implementation of the penalty system policy from April 2018	Review and implement revised Pensions administration strategy statement to include specific charging scales and ensure procedures are put in place to recover those charges from employers.	June 2018	The revised Pension Administration Strategy Statement was approved at Pension Fund Committee in July	LCPF have introduced an escalation policy for dealing with employer issues surrounding, specifically, the

			<p>2018 following a consultation with Scheme employers. The statement was published and distributed to employers in Sept 2018 and now includes charging scales for penalties where an employer is in breach of their requirements under the scheme. Work is on-going with the LCC finance team and the LPP date team to ensure that procedures are in place to identify and rectify breaches promptly.</p>	<p>remittance of pension contributions. The policy took effect from Feb 2019.</p> <p>Additionally progress has been made to reconcile the data reports received in the EPIC system with the contribution remittances received by the Pensions Finance team.</p> <p>Consideration will now be given to enhancing the EPIC system to provide more automation to this process.</p>
Manage Employer Risk	<p>Develop employer engagement strategy to assess risk of individual employers which will include</p> <ul style="list-style-type: none"> • A review of Pension strain factors underlying early retirement costs • Implementation of a revised Admissions and termination policy amending the actuarial assumptions used to assess the value of the liabilities at the point an employer exits the fund. 	<p>April 2018</p> <p>April 2018</p>	<p>New Admissions and termination policy completed April 2018.</p> <p>Work is on-going with LPP employer risk team</p>	<p>The admissions and termination policy will be reviewed following the completion of the Funding Strategy Statement review.</p> <p>Pension strain factors will be reviewed following the completion of the results of the current</p>

	<ul style="list-style-type: none"> An on-going review of the employer covenant reports provided by LPP. Consideration of on-going funding checks of scheme employer using bespoke actuarial monitoring tools. 	<p>Annually</p> <p>Annually</p>	<p>and Mercers to identify "high risk" employers to monitor. Initial funding review of employers as at March 2018 has been passed to LPP as part of that on-going exercise.</p>	<p>valuation and any feedback falling out of the current exit cap consultation. The review of employer covenants will now form part of future valuation processes and will utilise both LPP's employer risk function and Mercers PFaroe risk modeller.</p>
Implementation of changes to statutory regulations	<p>Review and implement all amending legislation including the following legislation expected in 2018 :</p> <ul style="list-style-type: none"> The 3 proposed policies covering caps and reforms being considered by government in respect of exit payments made to or in respect of a person leaving public sector employment. LGPS amending legislation covering fair deal in the LGPS, Freedom and choice options for AVC,s and extended early release options for deferred members 	Implemented in accordance statutory timetables	<p>Consultations regarding any amendments in this area are still awaited.</p> <p>The Local Government Pension Scheme (Amendment) Regulations 2018 came into force on 14 May 2018. Those changes have been fully implemented by LPP. However the freedom and choice options for AVC ,which were included in the consultation, were not taken forward by the</p>	<p>Update on consultations:</p> <p>1/ Local valuation cycle and the management of employer risk The MHCLG have confirmed that it is likely to retain a 3 year valuation for now and would review the situation further in 2021.The issue of exit credits which was also part of the same consultation, may now be addressed in a separate statutory instrument.</p> <p>2/ Exit Payment reform</p>

			<p>MHCLG in the final regulations. In addition the fair deal proposals were also not taken forward, however the MHCLG are still planning to proceed with this and will launch a separate consultation later this year.</p>	<p>The consultation on limiting exit payments for public sector workers closed on 3 July 2019. HM Treasury received approximately 600 responses, and it is likely they will publish their response later this year, however it is unlikely that the Treasury will introduce the cap before 1 April 2020</p> <p>3/ Fair Deal – Strengthening pension protection</p> <p>MHCLG have confirmed that they have not finished the policy work and will provide a further update on 10 December 2019 in regard to implementation timescales.</p>
--	--	--	--	--

Communication

Communication is the process by which we ensure that Fund members and employers are aware of their benefits and of their responsibilities; and of the overall performance of the Fund. It is also the process by which we promote the benefits of the Fund.

Our objectives in this area are:

- To provide good pension information, promoting pensions in the workplace and to actively promote the Scheme to prospective members and their employers.
- To ensure transparency; building trust, confidence and engagement in pension saving as the norm, and ensuring that investment issues are communicated appropriately to the Fund's stakeholders.
- To communicate in an appropriate and direct way to all our stakeholders, treating them all fairly, achieving appreciation of the benefits of being a member of the Fund
- To ensure that our communications are simple, relevant and have impact;
- To deliver information in a way that suits all stakeholders, increasingly taking advantage of advances in technology.
- To treat information security with the upmost importance.

Over the next three years we are aiming to undertake the following actions in this area:

Outcomes	Actions	Timeframe	Progress September 2018	Progress December 2019
To ensure that all members and stakeholder appropriately identify and recognise LCPF	<ul style="list-style-type: none"> • Develop LCPF Branding • Develop a new website. 	2018-19	A company has been engaged to produce a brand for LCPF. Website to be	A new brand and logo has been developed and agreed by the Pension Fund

			developed once determined.	Committee in June 2019. Development of the Fund website is currently on-going.
Implementation of new AVC funds	<ul style="list-style-type: none"> Communicate new approved funds being added to Prudential's portfolio Assist employers who wish to implement Salary sacrifice shared cost AVC arrangements 	<p>April 2018</p> <p>Ongoing throughout period of Strategic Plan from June 2018</p>	<p>New Lifestyle funds introduced and communicated to members in July 2018.</p> <p>Availability of Salary sacrifice schemes for AVC's have been communicated to Scheme employers both directly and through the practitioner's conference. To date Blackpool, Blackburn and Wyre have adopted the scheme. For Lancashire County Council, their scheme was approved by</p>	<p>LCC's salary sacrifice scheme is now fully up and running, a programme is in place to continually promote and expand the scheme.</p>

			Employment committee in Sept 2018. It is expected that the New scheme will be launched Feb to March 2019.	
--	--	--	---	--

Glossary

GDPR- A European regulation which replaces data protection requirements including the UK Data Protection Act 1998

PFC – The Pension Fund Committee the body of elected councillors and other representatives of employers and scheme members responsible for making the key decisions about the management of the Fund.

LCPF –Lancashire County Pension Fund.

LGPS- Local Government Pension Scheme. This is a statutory scheme with regulations stipulating the benefits available.

LPB – The Local Pension Board, a body of 4 employers and 4 scheme members together with an Independent Chair who are responsible for overseeing the work of the County Council as Administering Authority for the Fund and making recommendations for improvement.

LPP - The Local Pensions Partnership is a collaboration between two LGPS funds – Lancashire County Pension Fund and London Pensions Fund Authority. It covers both investment and administration activities.

MiFID 2 -The second Markets in Financial Instruments Directive (MiFID II) was implemented in the UK from January 2018. Under this firms will be obliged to treat all local authorities, including Pension Funds, as retail clients unless they opt up to professional client status and meet certain criteria. These criteria include holding a minimum £10 million investment balance and employing knowledgeable and experienced staff to carry out investment transactions. LCPF will be opting up to professional status.

TPR – The Pensions Regulator who is responsible for ensuring that all public sector pension schemes adhere to proper standards of governance and service quality.

Phone (01772) 530530

E mail:

Website www.yourpensionservice.org.uk